No. 80-1692

In the Supreme Court of the United States

OCTOBER TERM, 1980

DECCA, LIMITED, PETITIONER

v.

UNITED STATES OF AMERICA

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF CLAIMS

BRIEF FOR THE UNITED STATES IN OPPOSITION

WADE H. MCCREE, JR.
Solicitor General

THOMAS S. MARTIN
Acting Assistant Attorney General

WILLIAM KANTER
JOHN FARGO
Attorneys

Department of Justice
Washington, D.C. 20530
(202) 633-2217

QUESTION PRESENTED

Whether the Court of Claims correctly determined the amount of compensation due petitioner under 28 U.S.C. 1498(a) for the government's use of a patented invention.

TABLE OF CONTENTS

Page

Opinions below 1

Jurisdiction 1

Statement 2

Argument 5

Conclusion 10

TABLE OF AUTHORITIES

Cases:

Aro Manufacturing Co. v. *Convertible Top Replacement Co.*, 365 U.S. 336 9

Brooks-Scanlon Corp. v. *United States*, 265 U.S. 106 6

Calhoun v. *United States*, 453 F. 2d 1385 6

Crozier v. *Krupp*, 224 U.S. 290 6

Dawson Chemical Co. v. *Rohm & Haas Co.*, 448 U.S. 176 9

Deepsouth Packing Co. v. *Laitram Corp.*, 406 U.S. 518 ..... 4, 7, 10

Leesona Corp. v. *United States*, 599 F. 2d 958, cert. denied, 444 U.S. 991 8

Tektronix, Inc. v. *United States*, 552 F. 2d 343, judgment modified, 575 F. 2d 832, cert. denied, 439 U.S. 1048 6

Trio Process Corp. v. *L. Goldstein's Sons, Inc.*, 612 F. 2d 1353, cert. denied, No. 79-1771 (Oct. 6, 1980) 8

United States v. *Miller*, 317 U.S. 369 6

Page

Cases—Continued:

United States v. *Sherwood*, 312 U.S. 584 7

United States v. *Virginia Electric & Power Co.*, 365 U.S. 624 6

Waite v. *United States*, 282 U.S. 508 4

WRB Corp. v. *United States*, 183 Ct. Cl. 409 6

Statutes and rule:

28 U.S.C. 1498 8

28 U.S.C. 1498(a) 2, 3, 4, 6, 7, 8, 9, 10

35 U.S.C. 1 *et seq.* 8

Ct. Cl. R. 141 6

In the Supreme Court of the United States

OCTOBER TERM, 1980

No. 80-1692

DECCA, LIMITED, PETITIONER

v.

UNITED STATES OF AMERICA

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF CLAIMS

BRIEF FOR THE UNITED STATES IN OPPOSITION

OPINIONS BELOW

The opinion of the trial judge on accounting is reported at 206 U.S.P.Q. (BNA) 1041 (Pet. App. A-102 to A-193). The opinion of the Court of Claims on accounting is reported at 640 F. 2d 1156 (Pet. App. A-1 to A-43). The opinion of the Court of Claims on the liability phase is reported at 544 F. 2d 1070 (Pet. App. A-52 to A-101).

JURISDICTION

The judgment of the Court of Claims was entered on November 19, 1980, and a motion for rehearing was denied on January 9, 1981 (Pet. App. A-194). The petition for a writ of certiorari was filed on April 8, 1981. The jurisdiction of this Court is invoked under 28 U.S.C. 1255(1).

STATEMENT

This case is the accounting phase of a suit under 28 U.S.C. 1498(a) in which the United States was charged with the unauthorized manufacture and use of the invention disclosed in claims 1, 4 and 11 of petitioner's U.S. Patent No. 2,844,816 ("the '816 patent").

1. Petitioner contended that the Omega Navigation System, a worldwide radio navigation system built by the United States Navy, infringed the '816 patent. The patent claimed a radio navigation system in which the relative phases of three frequencies radiated from two or more transmitters were compared by a receiver, which by resolving lanes could determine the position of the receiver (Pet. App. A-2 to A-3).[1] After a trial on the question of liability, the Court of Claims held that claims 1, 4 and 11 of the '816 patent were infringed by the combination of Omega system transmitters and AN/ARN-99 or AN/BRN-7 Omega receivers (Pet. App. A-66). The court also held that, because the Omega system was controlled from the United States, the government was liable although only two of the transmitters were physically present in United States territory (Pet. App. A-56).

2. The case was referred to a trial judge for a determination of compensation (Pet. App. A-52). The trial judge recommended an award of $39,355,715, including delay compensation (*id.* at A-103). The trial judge's award was based on an estimate of the difference in costs associated with expanding the LORAN-C radio navigation system to provide worldwide coverage and the costs of building and operating the proposed Omega system; the estimate is found in a report that was written to justify the Omega

---

[1] "Lane resolution," in essence, is the manner of determining a receiver's position by resolving ambiguities in an initial determination of position within a relatively narrow "lane" through measurements of position within increasingly wider lanes (see Pet. App. A-59, A-60).

system (Pet. App. A-127 to A-128). Recognizing that this estimate was in turn based on "educated estimates used to stimulate congressional interest in the funding and construction of the Omega system and * * *, no doubt, highly inflated" (Pet. App. A-127), the trial judge discounted the figure by 50% before awarding a portion of it as basic compensation.

Although the trial judge had made numerous findings of fact regarding petitioner's commercial licenses for the '816 patent, and based on these findings was able to determine a reasonable royalty rate and base, the judge declined to base his award on a reasonable royalty for government manufacture and use of the patented invention. The trial judge stated (Pet. App. A-122): "It is possible, on the other hand, to ignore the established royalty rate and, in lieu thereof, award the patent owner a percentage of the saving to the infringer over the cost of the next-best available noninfringing mode."

3. The Court of Claims disagreed with the trial judge's apparent conclusion that 28 U.S.C. 1498(a) provides compensation for anything other than direct infringement by the government or its contractors, and further declined to adopt the trial judge's cost-savings approach. Instead, the court based its award on a reasonable royalty, as established by the judge's findings of fact (("TJF") Pet. App. A-1, to A-130 to A-191).

In determining compensation, the Court of Claims first noted that the patented invention was a combination of receivers and transmitters (Pet. App. A-12): "Although the '816 describes the system in terms of the functions of the components of the system (the transmitters and the receivers), the components are not separately patented under the '816. Only their combination or integration into the system is patented thereunder." The court further explained that under Section 1498(a), the government had only assumed

liability for direct infringement by itself or its agents, pointing out that (Pet. App. A-10) "[a]ctivities of the Government which fall short of direct infringement do not give rise to governmental liability because the government has not waived its sovereign immunity with respect to such activities."

Therefore, under Section 1498(a), no compensation was due for "breadboard" receivers built by prospective bidders prior to the award of any government contract, nor for transmitting stations not completed or receivers not yet installed as of the date the '816 patent expired (Pet. App. A-15 to A-18). As the Court of Claims explained (*id.* at A-12 n.26), "*Deepsouth Packing Co.* v. *Laitram Corp.*, 406 U.S. 518 (1972) * * * holds that, where the novelty of a patented machine arises from the particular configuration in which its components are combined, mere manufacture of the unassembled components of the machine does not amount to manufacture of the machine and, hence, does not directly infringe the patent claiming the machine."

After noting that Section 1498(a) required payment of just compensation to the patentee for the license taken by the government, including compensation for the delay in paying for that license (see *Waite* v. *United States*, 282 U.S. 508 (1931); Pet. App. A-10 to A-11), the Court of Claims addressed the matter of determining reasonable compensation. The court began by observing (*id.* at A-11 n.17; citation omitted) that "[t]he measure of recovery quoted from section 1498 is equivalent to the just compensation which the fifth amendment mandates for every governmental taking." As noted above, the court then rejected the trial judge's cost-savings approach in favor of the "preferred method," the reasonable royalty approach based on petitioner's commercial licenses for the '816 patent (*id.* at A-20), emphasizing that "[t]he means exist in this case for a more conventional and substantiated measure of liability legally

incurred by [the government than the cost savings approach]" (*ibid.*). The court added that the trial judge's own characterization of the estimate of cost savings as "highly inflated" supported its rejection of the judge's award (*id.* at A-20 to A-21 n.43).

In determining a reasonable royalty, the court relied on a number of the trial judge's factual findings, to which petitioner had not excepted (Pet. App. A-1). First, the trial judge found that the base on which a royalty would be paid should not include the cost of land, buildings for certain equipment and personnel, roads, prime power equipment or backup generators (*id.* at A-21 to A-22). These exclusions were based on provisions in petitioner's commercial licenses to several companies (*id.* at A-22; see also *id.* at A-148, A-176). Second, the trial judge found that (*id.* at A-31, quoting TJF 127) "if the Government [had] obtained a license from Decca or a sublicense from Bendix prior to litigation, the 7.5 percent royalty rate [in the Bendix license] would have been an established reasonable royalty rate." Using these findings of fact, the Court of Claims calculated a reasonable royalty rate of 7.5% and a royalty base for the Omega system as it existed on the date the '816 patent expired (see generally *id.* at A-144 to A-173).[2]

The court rendered judgment for petitioner in the amount of $2,043,425.92 in basic compensation, plus $1,131,033.49 in delay compensation (Pet. App. A-37).[3]

---

[2]The court rejected another finding of fact indicating that a 10% royalty rate was "adequate" because the difference between the 7.5% royalty rate in TJF 127 and the 10% rate in TJF 59 appeared to be an indirect award of litigation expenses, which is impermissible under Section 1498(a) (Pet. App. A-31).

[3]The court further set delay compensation accruing after June 30, 1980, at $446.65 per day until payment of the judgment (Pet. App. A-37).

ARGUMENT

1. The Court of Claims applied well-settled principles of eminent domain law to determine just compensation in this case. Just compensation for the taking of property is the fair market value of the property at the time of taking, plus delay compensation. *United States* v. *Miller*, 317 U.S. 369, 374-375 (1943); *Brooks-Scanlon Corp.* v. *United States*, 265 U.S. 106, 123 (1924). Under 28 U.S.C. 1498(a), the government, in effect, takes a compulsory, compensable patent license by eminent domain. *Crozier* v. *Krupp*, 224 U.S. 290, 305 (1912); *Calhoun* v. *United States*, 453 F. 2d 1385, 1391 (Ct. Cl. 1972). The fair market value of the property taken—a license for the government's manufacture and/or use of the patented invention—is a reasonable royalty, *i.e.*, what a willing licensee and licensor would agree to in arms-length negotiations as a reasonable payment for a license. *Tektronix, Inc.* v. *United States*, 552 F. 2d 343, 349 (Ct. Cl. 1977), judgment modified, 575 F. 2d 832, cert. denied, 439 U.S. 1048 (1978). See also *United States* v. *Virginia Electric & Power Co.*, 365 U.S. 624, 633 (1961). The Court of Claims determined a reasonable royalty by focusing on what petitioner itself charged commercial users of its '816 patent (Pet. App. A-20 to A-35). In applying the rate established in these licenses,[4] the court used the trial judge's uncontested findings of fact (*id.* at A-1, A-21, A-31).[5]

---

[4]In addition to the Bendix license, on which the Court of Claims relied (Pet. App. A-22, A-31), there were at least six other licenses and sublicenses containing identical terms made of record in the accounting trial (see *id.* at A-176 (TJF 130)). As the court below noted (Pet. App. A-20; footnote omitted), petitioner "has licensed commercially rights under the '816 which are similar to the rights thereunder taken by the Government."

[5]Court of Claims Rule 141 provides that "any party dissatisfied with the trial judge's findings of fact, opinion, or recommendation for the conclusion of law shall * * * file a notice of intention to except, specifying his intention to except to the findings, opinion, or recommendation,

The Court of Claims' refusal to award petitioner a royalty for the manufacture of *unpatented* receivers and transmitters that were never assembled to form the patented navigation system prior to expiration of the '816 patent follows from this Court's holding in *Deepsouth Packing Co.* v. *Laitram Corp., supra* (Pet. App. A-12 n.26). Furthermore, the court below correctly held that petitioner could not circumvent *Deepsouth* by asserting that the manufacture of unpatented parts constituted contributory or induced infringement, because Section 1498(a) only provides liability for direct infringement by the government or its agents (Pet. App. A-10). Nor could petitioner rely on contributory infringement to claim compensation for prototype receivers that were not manufactured for the government with its authorization and consent (*id.* at A-15). Contributory infringement and induced infringement are torts for which sovereign immunity has not been waived under Section 1498(a). See generally *United States* v. *Sherwood*, 312 U.S. 584, 586, 590 (1941) (waivers of sovereign immunity must be strictly construed).

The Court of Claims' award to petitioner was based on the proven value of a patent license determined by using a reasonable royalty approach, which avoided the windfall that would have resulted from the use of the cost savings approach based on speculative and doubtful estimates (Pet. App. A-20). The award assured petitioner compensation for the governmental taking of a license comparable to royalties paid by private parties for similar rights.

2. Contrary to petitioner's contention (Pet. 8-13), the Court of Claims recognized that "reasonable and entire compensation" under Section 1498(a) is equivalent to "just

---

or to any or all of the components of the report." See *WRB Corp.* v. *United States*, 183 Ct. Cl. 409, 417-418 (1968) (failure to file timely exceptions under prior version of Rule 141). Petitioner failed to file any exceptions to the trial judge's findings of fact.

compensation" (see Pet. App. A-11 n.17).[6] Petitioner's quarrel is simply with the amount of compensation determined by the court in light of the evidence and the principles of eminent domain law.

Consideration of cost-savings is one means of determining the fair market value of a patent license. Although it has been used by the Court of Claims in the past in instances where there was no direct evidence of a reasonable royalty, it is not the preferred method of valuation (Pet. App. A-11). In most cases, the Court of Claims focuses on the patentee's commercial licenses of similar rights since they provide the most reliable evidence of the market value of a license to use the patented invention (*ibid.*).[7] Such an approach makes sense because it rests on a concrete royalty produced by the good faith bargaining of a willing licensor and a willing licensee, thus avoiding speculation over the value of claimed advantages of the patented invention.[8]

3. The tort doctrines of contributory and induced infringement are inapplicable in actions under Section 1498(a), but patentees are not, as a result, denied "just compensation."

---

[6]Petitioner's reliance (Pet. 22) on the court's statement that a higher award may have been obtained in a suit against a private party (Pet. App. A-20) is misplaced. The statement simply recognized that not all of the remedies established in Title 35 of the United States Code in cases of patent infringement by a private party are incorporated by Section 1498. See, *e.g.*, *Leesona Corp.* v. *United States*, 599 F. 2d 958, 968-969 (Ct. Cl.), cert. denied, 444 U.S. 991 (1979).

[7]Even in private infringement actions under Title 35, where more than "just compensation" can be awarded, awards are generally based upon a reasonable royalty as evidenced by commercial licenses. See, *e.g.*, *Trio Process Corp.* v. *L. Goldstein's Sons, Inc.*, 612 F. 2d 1353 (3d Cir.), cert. denied, No. 79-1771 (Oct. 6, 1980).

[8]While the Court of Claims did not feel compelled to evaluate the relationship between the cost savings and the patented invention (Pet. App. A-20), we submit that the cost savings are wholly unrelated to the inventive concept of the '816 patent, which is lane resolution (*id.* at A-14 n.29), but instead are the result of the particular frequency range of signals used (see *id.* at A-132 (TJF 30)).

These doctrines, which establish the liability of a party who induces or facilitates direct infringement, were developed to allow a patentee to recover from the contributory infringer where enforcement against direct infringers would be difficult because of their number or minimal individual activity. See generally *Dawson Chemical Co.* v. *Rohm & Haas Co.*, 448 U.S. 176, 188 (1980).[9] Because the government has already agreed to be held liable for any authorized direct infringement by its suppliers, however, there is no reason for incorporating the doctrine of contributory infringement into Section 1498(a). The patentee can sue the government for any manufacture or use of the patented invention for the United States, regardless of the multiplicity of government agents involved.[10]

Petitioner mischaracterizes the Court of Claims' holding in arguing (Pet. 15) that it refused to award compensation for manufacture (apart from use). As this Court stated in *Deepsouth*:

> We cannot endorse the view that the "substantial manufacture of the constituent parts of [a] machine" constitutes direct infringement when we have so often held that a combination patent protects only against the operable assembly of the whole and not the manufacture of its parts.

---

[9]The *Dawson* case is illustrative of this purpose since it would have been economically impossible for Rohm & Haas to sue the individual farmers who infringed its patent.

[10]Even if the doctrine of contributory infringement applied in actions under Section 1498(a), absent direct infringement by a government supplier, there is no contributory infringement. *Aro Manufacturing Co.* v. *Convertible Top Replacement Co.*, 365 U.S. 336, 341 (1961). Manufacture of unpatented parts of a patented invention is not direct infringement. *Deepsouth Packing Co.* v. *Laitram Corp.*, *supra*, 406 U.S. at 528.

406 U.S. at 528.[11] Manufacture of unpatented parts is simply not manufacture of the patented invention. See Pet. App. A-12 (petitioner's "components are not separately patented under the '816. Only their combination or integration into the system is patented thereunder").[12]

CONCLUSION

The petition for a writ of certiorari should be denied.

Respectfully submitted.

WADE H. MCCREE, JR.
Solicitor General

THOMAS S. MARTIN
Acting Assistant Attorney General

WILLIAM KANTER
JOHN FARGO
Attorneys

JUNE 1981

---

[11]That government suppliers of unpatented parts cannot be enjoined is immaterial. If the parts are assembled to form the patented invention, there is recourse against the government under Section 1498(a). If there is no assembly during the term of the patent, there has been no direct infringement and an injunction would be unwarranted.

[12]Finally, petitioner's assertion (Pet. 23-24) that this decision will serve as a disincentive to pursue inventions that are of primary benefit to the government is unfounded. The Court of Claims awarded petitioner the same royalty it had obtained commercially for its Mk X system despite the fact that it had designed and fully developed the Mk X system, while it had not expended any funds in designing equipment for an Omega-type system (Pet. App. A-35 to A-36). Although petitioner incurred no expense in adapting this system to governmental use, it received the market value of a license to use a fully developed embodiment of the invention. Such a result hardly discourages inventors from seeking patent protection for similar inventions.

DOJ-1981-06